

Us Experience of Asset Securitization

Akhmedov Akbarali Sultanmurodovich, PhD

Associate Professor of Banking and Investments Department

Tashkent State University of Economics

asakhmedov.80@gmail.com

Abstract: The article studies theoretical and practical approaches to securitization of assets. The analysis of securitization of assets in the United States. The problems are studied and conclusions on them are drawn and the ways of the decision on introduction of processes of securitization of assets in Uzbekistan are offered.

Keywords: assets, securitization, securities, issue, risk, mortgage loan, auto loan.

Introduction

Securitization of the assets of commercial banks is one of the most promising and actively developing mechanisms of the financial market, which today occupies an important place among modern means of financing. In particular, the effective use of these financial derivatives is even more important in the context of high demand for financial resources by commercial banks and limited available funds.

Limited resources in attracting investment to the economy of the country, in turn, make it difficult for commercial banks to choose the most effective areas of investment. At the same time, the lack of securitization practices in commercial banks of the country is explained by the need to create the following necessary conditions: the formation of a reserve of liquid debt, which serves as the basis for the issuance of securities; to establish and ensure the uninterrupted operation of a number of specialized financial institutions; establishment of an active stock market, etc.

According to Decree of the President of the Republic of Uzbekistan dated February 7, 2017 No PF-4947 "On the Strategy for further development of the Republic of Uzbekistan" In order to meet the demand for financial resources in the acquisition of the economy and small businesses to increase the volume of lending by 1.2 times "[1]. This, in turn, necessitates the development of scientifically sound practical proposals and recommendations for the introduction of this practice in the banking system of Uzbekistan, based on the definition of the theoretical basis for the development and improvement of forms and methods of securitization of assets of commercial banks in the liberalization of the banking system. This determines the relevance of the topic of this article.

Literature review

Conceptual bases of the process of securitization of assets of commercial banks, its functions, forms and principles L. Schwartz [2], H. Peris, E. Hartwood [3], J. Gill [4], A. Andreas [5], J. Bart, It has been studied in the scientific works of foreign economists and experts such as Tong Lee [6], H. Ber [7] and P. Rose [8].

Research on the empirical evaluation and modeling of sequential transactions of securitization is reflected in the scientific work of CIS economists N. Alexandrova [9], A. Rachkevich [10] and M. Sukhanov [11].

Some aspects of the practice of securitization of assets have been studied by local economists such as I. Butikov [12], D. Gozibekov [13], N. Karimov, M. Tashkhodjaev [14] and M. Muminova [15].

The concept of “securitization” is interpreted by renowned economist P.S. Rose as a mechanism that serves to increase asset turnover. According to him, asset securitization is manifested in the form of conversion or change of non-liquid assets into liquid assets that can be traded independently in the financial market [8].

Hans Peter Bern, a Swedish scientist and professor at the University of Zurich, also noted that “asset securitization is the newest method of financing, which includes: the removal of classified assets from the balance sheet of a credit institution or other enterprise; have legal independence by transferring assets to a specially established legal entity; it is refinanced in the international money market through the issuance of securities” [7].

Economist Stephen Schwartz, in his *Alchemy of Asset Securitization*, considers asset securitization as “the potential for securitization organizer to raise funds at low cost in the investment market through full or partial separation of receivables in order to offset the risks inherent in the securitization organizer.” [2]

Also, one of the local economists M. Muminova in her research “suggests the use of soft loans provided under government programs as an asset in the securitization of assets” [15].

In this regard, it should be noted that to date, no separate independent study on the securitization of bank assets has been conducted in our country. Economists of our country have studied only some aspects of the securitization of assets of commercial banks, and this is limited only to the scientific and theoretical framework. Thus, the lack of scientifically based proposals and recommendations on the possibility of introducing their priorities in the practice of Uzbekistan based on the study of the experience of foreign countries did not allow to solve existing problems in this area on the basis of empirical analysis of this practice.

Research methodology

The theoretical and methodological structure of the article is based on the study of the approaches and views of foreign and domestic economists on the subject, as well as the analysis of the possibility of introducing their priorities in Uzbekistan through the study of foreign experience of asset securitization aspects were formed. The methods of comparative assessment and scientific abstraction, systematic analysis were used in the implementation of this research.

Analysis and results

The formation of “asset securitization” as an economic term began with the “street rumors” of Anna Monroe (Wall Street Journal (1977)). The deal, dubbed the Bank of America issue, was signed with Solomon Brothers Bank. In particular, Lewis Ranieri, director of mortgages at Solomon Brothers Bank, suggests introducing the concept of “securitization” in an interview with the Wall Street Journal when studying the process of issuing secured securities on mortgage loans [4].

In the mid-1980s, the practice of asset securitization became widespread in a number of developed countries, such as the United States, the United Kingdom, France, the Netherlands, Germany, Spain, Italy, Austria, Japan, and Canada. At the same time, large international banks - lenders, issuers, guarantors and investors - began to take an active part in the securitization of assets. One such bank is the Dutch bank ABN AMRO.

Later, the practice of securitization on the basis of other types of assets was introduced. For example, in March 1985, the US leasing company Credit Suisse First Boston paid \$ 192 million to Sperry Lease Corporation to securitize future payments related to computer leasing. The United States made the first sensational deal worth a dollar [7].

At the same time, the US company Western Financial Savings has launched the issuance of

securities on the basis of car loans. This meant the use of a new type of security in the practice of securitization now. As a similar security, Asset Backed Securities (ABS) - “Asset-backed Securities” has emerged widely and this type of security has become the most common securitization instrument in the future.

If we look at the current state of securitization of assets under the primary issue, we see the following trends. In 2018, the total volume of primary emissions by foreign countries in the framework of securitization will increase by 11.2% to 1 trillion. 50 billion Formed the U.S. dollar. While there was a significant increase in equity issuance in the U.S., China and Europe, the growth rate was low in Canada and Japan. This indicator also noted a downward trend in Australia and Latin America (Table 1).

1-жадвал. Total volume of primary emissions made by foreign countries in the framework of securitization is in billions of US dollars¹

| Countries | 2015 | 2016 | 2017 | 2018 |
|--------------------------------|------------|------------|------------|-------------|
| United States | 436 | 372 | 510 | 565 |
| China | 97 | 116 | 220 | 260 |
| Europe | 77 | 81 | 82 | 90 |
| Japan | 38 | 53 | 48 | 52 |
| Australia | 24 | 17 | 36 | 34 |
| Canada | 15 | 18 | 20 | 22 |
| Latin America | 11 | 12 | 17 | 15 |
| Other countries | 12 | 13 | 11 | 12 |
| Total primary emissions | 710 | 682 | 944 | 1050 |

The table shows that in 2018, the volume of primary emissions from securitization in the US will reach 565 billion. Formed the U.S. doll. This is 10.7% more than in 2017. If we look at the total volume of primary emissions made in the world in 2018, then the share of the United States is 53.8%. The analysis shows that today the United States is a clear leader in the world in terms of asset securitization.

In 2018, the volume of primary and secondary issues carried out by US commercial banks in the framework of asset securitization amounted to about 1.6 trillion. The US dollar grew by 7.8% compared to 2017 and by 35% compared to 2009 during the global financial and economic crisis.

Despite the increase in the share of commercial banks in the implementation of securitization, in 2018 the share of mortgage securities in securitization was 19.5%. The securitization process is mainly carried out by a number of leading government agencies. In particular, the Federal National Mortgage Association can be cited as an agency that issues secured mortgage securities under a government guarantee. In addition, 12.5 percent of securitization is asset-backed securities (ABS), which includes secured debt obligations (CDOs). In addition, the share of CMBS (secured commercial mortgages) and RMBS (secured residential mortgages) is 8.9 percent. The share of other types of securitization without the involvement of government agencies is 10.9% (Figure 1).

¹ Prepared by the author based on data from Standard and Poor's Global Ratings.
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* – (** + ***).

** – *Fannie Mae, Freddie Mac, and unsecured mortgage-backed securities secured by the Federal Home Loan Bank.*

*** – *Bonds and promissory notes issued by Fannie Mae, Freddie Mac and Federal Home Loan Bank on the basis of a government guarantee.*

Figure 1. The volume of secondary emissions made in the United States as part of securitization, the type of securities, trillion. In U.S. dollars ²

Figure 1 shows that while all types of mortgage-backed securities were used for securitization in the period up to 2009, bonds and promissory notes issued by the U.S. government from Fannie Mae, Freddie Mac, and Federal Home Loan Bank have been used since 2009 announced that it was under government guarantee. Also, by 2009, the volume of government-guaranteed "secured debt obligations" has increased sharply.

Now, let's take a closer look at "Asset-backed Securities" (ABS), which has a 12.5 percent share of total securitization in the U.S. in 2018, and its structure (Figure 2).



Figure 2. In Securitization, "Securities Secured by Assets" - (ABS) ³

² <https://www.sifma.org>

³ <https://www.sifma.org>

At the end of 2018, US commercial banks issued loans totaling \$ 88.9 billion. Securitization was carried out on the basis of "Securities secured by assets" (ABS), equal to the US dollar. At the same time, the structure of the ABS was formed as follows: car loans - 15.9 billion U.S. dollar; trade and industrial loans - 5.2 billion U.S. dollar; credit cards - 21.4 billion U.S. dollar; loans to improve living conditions - 1.4 billion U.S. dollar; consumer loans - 37.5 billion U.S. dollar; other loans secured by assets - 7.5 bln. U.S. dollar.

Looking at the analysis, in 2018, the volume of ABS decreased by 21.7% compared to 2017. At the same time, the rate of reduction is structurally distributed as follows: that is, loans to improve living conditions - by 51.2%; commercial and industrial loans - by 42.2%; other loans secured by assets - decreased by 33.9%. The downward trend in the volume of "securities secured by assets" (ABS) was due to the negative impact of illegal securitization on the basis of this instrument.

In general, the above cases allow to identify the following factors influencing the development of the practice of securitization: 1) government incentives; 2) external environmental factors; 3) search for new modern sources of funding; 4) regulatory restrictions.

The U.S. experience today shows that it is important and necessary to encourage the practice of securitization. These measures will form the overall investment attractiveness of securities issued in the framework of securitization and will initially act as a catalyst.

Conclusions and recommendations

The study and research of the US experience will provide an opportunity to introduce the methods and tools of securitization in the practice of Uzbekistan. It should be noted that today the practice of securitization is not used in commercial banks of the country. The main reasons for not using such a practice, which is now widely used internationally, depend on a number of factors:

- underdevelopment of the securities market in the country and the inability of this market to perform the functions of the distribution and redistribution of financial resources;
- weak activity of institutional investors in the financial market, no activity in the securities market at all;
- almost no legal documents on asset securitization and no mechanism to stimulate this activity;
- very low ability to place securities issued due to securitization of assets in domestic and foreign financial markets;
- insufficient development of financial market infrastructure, in particular, the lack of investment intermediaries, etc.

In general, the prospects for the introduction and development of securitization in our country should begin with the improvement of the legal framework.

The following problems need to be addressed in asset securitization in our country:

- implementation of measures to develop the system of institutional investors;
- introduction of a market mechanism for shaping the credit history of commercial banks of Uzbekistan;
- establishment of statistics on early repayment of loans;
- encourage domestic and foreign investors to invest in new financial market instruments.

It should be noted that today the financial market of the Republic of Uzbekistan is not integrated into world financial markets. Share of foreign investors in domestic financial markets is very low due to the underdevelopment of domestic financial markets and the presence of capital control.

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